



September
2007

California Postsecondary Education Commission

Higher Education Budget Update, 2007-08

ITEM 5

DRAFT

This report presents highlights from the recently adopted 2007-08 State Budget. The report notes that while this year's budget is balanced, weakening state finances and uncertain economic circumstances could lead to lower State revenues and a difficult budget year in 2008-09 and beyond.

Contents

Background	1
Significant Budget Actions	1
Higher Education Budget Highlights	2
Other Budget Provisions	3
Summary	3

The Commission advises the Governor and the Legislature on higher education policy and fiscal issues. Its primary focus is to ensure that the State's educational resources are used effectively to provide Californians with postsecondary education opportunities. More information about the Commission is available at www.cpec.ca.gov.

Draft Commission Report

Background

On August 24, 2007, the Governor signed into law the 2007-08 Budget Act for the State of California. The Governor vetoed \$703 million in State General Fund spending from the budget approved by the Legislature on August 21. The budget authorizes total spending of \$146 billion in overall general purpose funds, \$102 billion of this from the State General Fund and the remainder from various special funds. The budget projects year-to-year growth in State General Fund expenditures of 0.6%, while anticipating General Fund revenue growth of 6.5%. Display 1 below shows State General Fund spending by program category.

**Display 1 2007-08 State General Fund Spending,
by Program (dollars in millions)**

	2006-07	2007-08	\$ chnge	% chnge
Legis-Judicial-Exec.	\$3,522	\$3,792	\$270	7.7%
State, Consumer	613	577	-36	-5.9%
Bus-Trans-Housing	3,019	1,567	-1,452	-48.1%
Resource, Environ't	2,197	1,764	-433	-19.7%
Health, Human Serv.	29,418	29,719	301	1.0%
Corrections, Rehab.	9,293	9,836	543	5.8%
K-12 Education	39,761	41,341	1,580	4.0%
Higher Education	11,331	11,980	649	5.7%
Labor-Workforce	108	103	-5	-4.6%
<u>Gen'l Government</u>	<u>2,394</u>	<u>1,579</u>	<u>-815</u>	<u>-34.0%</u>
Totals	\$101,656	\$102,258	602	0.6%

Source: California Department of Finance.

Significant Budget Actions

The 2007-08 budget, while balanced and including a \$4.1 billion reserve, contains some one-time

revenue sources and expenditure reductions. These reductions are highlighted in Display 2. If current fiscal projections hold, the 2008-09 and 2009-10 State budgets are expected to again face multi-billion dollar revenue shortfalls.

Display 2 Major Actions Generating 2007-08 State General Fund Savings

- ✓ Proposition 98 – Lower estimates for 2006-07 “settle-up” funds, resulting in a lower 2007-08 minimum funding guarantee. These actions could result in additional Prop 98 funding requirements of up to \$800 million by the next May Revise, with most of this increase included in the Prop 98 funding base for 2008-09.
- ✓ One-time revenues – \$980 million from the sale of Ed Fund; \$293 million from revisions to tribal gaming agreements; accelerated transfer of \$600 million in Tobacco Tax funds.
- ✓ Other funds – \$1.3 billion from the Public Transportation Account.
- ✓ Spending reductions – \$247 million from suspending the current year Cal-WORKs cost-of-living adjustment (COLA) and permanently pushing the COLA for SSI/SSP five months later into the fiscal year; \$332 million vetoed from Medi-Cal, assuming lower program needs; \$72 million vetoed from employee compensation, costs expected to be paid from existing funds.

Higher Education Budget Highlights

The 2007-08 General Fund budget for California higher education is \$11.3 billion, 3.4% (\$375) million above last year’s spending level. Display 3 summarizes this funding. The budget fully funds projected enrollment growth in the California Community Colleges (2% or 22,000 FTE), the California State University (2.5% or 8,355 FTE), and the University of California (2.5% or 5,000 FTE). The budget also increases base funding of the public segments for salary increases and price inflation.

Regarding student fee levels, the budget incorporates UC and CSU revenue assumptions from their previously-adopted resident student fee increases (7% at UC and 10% at CSU). Resident fees in the community colleges remain at the current level of \$20 per unit. The Budget provides \$52 million for the joint K-12/Community Colleges Career Technical Education (CTE) initiative, designed to improve vocational education programs and opportunities for high school and college students.

The budget provides \$21 million for a major multi-segment initiative that seeks to address the statewide nursing shortage. The community colleges receive \$17 million to reduce attrition in college nursing programs and to start four new nursing programs. The CSU receives \$3.6 million to increase undergraduate nursing enrollments by 340 students and UC receives \$757,000 for increased enrollments in accelerated master’s nursing degree programs. This initiative also authorizes the Student Aid Commission to award 100 new State Nursing Assumption Program of Loans for Education (SNAPLE) awards for nurses in high-needs state facilities.

Display 3 2007-08 Higher Education General Funds plus Local Funds (dollars in millions)

	<u>2006-07</u>	<u>2007-08</u>	<u>\$ chnge</u>	<u>% chnge</u>
UC	\$3,083.4	\$3,273.9	190.5	6.2%
CSU	2,810.4	2,985.9	175.5	6.2%
CCC	6,072.6	6,206.2	133.6	2.2%
CSAC	802.9	873.0	70.1	8.7%
Hastings	10.7	10.6	-0.1	-0.9%
<u>CPEC</u>	<u>2.2</u>	<u>2.2</u>	<u>0.0</u>	<u>0.0%</u>
Total	\$12,782.2	\$13,351.8	\$569.6	4.5%

Source: Legislative Analyst’s Office.

Other Budget Provisions

The 2007-08 budget contains \$57.1 billion in total K-12/CCC Proposition 98 spending, an increase of \$2.1 billion (3.8%) over 2006-07. The K-12 budget also utilizes \$567 million one-time funds and special sources because the minimum increase called for in Prop 98 would not have provided enough money to meet K-14 baseline cost increases. As a result, the State will need to address a large funding gap in K-12 finances in the 2008-09 fiscal year. The budget also contains \$258 million in unallocated reductions to State agencies and retains a provision from prior years allowing the Governor to reduce spending by an additional \$100 million during the fiscal year.

Summary

The 2007-08 budget increases funding to the State's Education and Corrections and Rehabilitation programs in particular. The budget relies on carryover funds from prior years and special funds ordinarily dedicated to other purposes in levels that will not be available in future years. Not including these short-term resources, State General Fund expenditures for 2007-08 are projected to be \$5.6 billion above anticipated revenues. With concerns of a weakening national economy and with State revenue collections presently running below expectations, future funding levels for discretionary State programs and services could be in jeopardy.

Below are web links to additional information on the 2007-08 State budget:

Department of Finance:

<http://www.ebudget.ca.gov/pdf/Enacted/BudgetSummary/FullBudgetSummary.pdf>

Legislative Analyst:

http://www.lao.ca.gov/2007/major_features/major_features_2007.aspx,

http://www.lao.ca.gov/2007/supp_report/supp_rpt_2007.aspx

California Budget Project:

<http://www.cbp.org/pdfs/2007/082407govsigns.pdf>

